

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type [] City [] Township [] Village [x] Other		Local Government Name Washtenaw County Voluntary Employees Beneficiary Association	County Washtenaw
Audit Date 12/31/05	Opinion Date 1/31/06	Date Accountant Report Submitted to State: 3/22/2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | | | |
|-----|-----|-------|----|---|
| [] | Yes | [x] | No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| [] | Yes | [x] | No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| [] | Yes | [x] | No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| [] | Yes | [x] | No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| [] | Yes | [x] | No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| [] | Yes | [x] | No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| [] | Yes | [x] | No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [] | Yes | [x] | No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| [] | Yes | [x] | No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES
BENEFICIARY ASSOCIATION**

Financial Statements

**For The Years Ended
December 31, 2005 and 2004**



REHMANN ROBSON

Certified Public Accountants

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

January 31, 2006

To the Board of Trustees of the Washtenaw County
Voluntary Employees Beneficiary Association
Ann Arbor, Michigan

We have audited the accompanying statements of plan net assets of the **Washtenaw County Voluntary Employees Beneficiary Association** (the "Association") as of December 31, 2005 and 2004, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Voluntary Employees Beneficiary Association healthcare benefits trust fund and do not purport to, and do not, present fairly the financial position of Washtenaw County as of December 31, 2005 and 2004, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Association's net assets held in trust for healthcare benefits at December 31, 2005 and 2004, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

FINANCIAL STATEMENTS

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION
Statements of Plan Net Assets
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Investments, at fair value	\$ 35,712,862	\$ 32,436,735
Liabilities		
Accrued liabilities	<u>13,896</u>	<u>18,535</u>
 <u>Net Assets Held in Trust</u> <u>for Healthcare Benefits</u>	 <u>\$ 35,698,966</u>	 <u>\$ 32,418,200</u>

The accompanying notes are an integral part of these financial statements.

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Additions to net assets		
Employer contributions	\$ 6,039,693	\$ 4,788,478
Investment income:		
Interest and dividends	856,790	709,298
Appreciation in fair value of investments	1,866,911	2,683,828
Total investment income	2,723,701	3,393,126
Investment management fees	(211,145)	(182,336)
Net investment income	2,512,556	3,210,790
Total additions to net assets	8,552,249	7,999,268
Deductions from net assets		
Participant benefits	5,161,271	3,128,312
Administrative expenses	110,212	87,798
Total deductions from net assets	5,271,483	3,216,110
Increase in net assets	3,280,766	4,783,158
Net assets held in trust for healthcare benefits, beginning of year	32,418,200	27,635,042
Net assets held in trust for healthcare benefits, end of year	\$ 35,698,966	\$ 32,418,200

The accompanying notes are an integral part of these financial statements.

WASHTENAW COUNTY VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Notes To Financial Statements

1. PLAN DESCRIPTION

The Washtenaw County Voluntary Employees Beneficiary Association (VEBA; the “Association”) is a single-employer defined benefit postemployment healthcare plan established and administered by Washtenaw County (the “County”) to provide medical and healthcare benefits for retirees and their beneficiaries. Eligible participants include any retirees who receive pension benefits under one of the County’s pension plans. Association provisions are established and may be amended by the Washtenaw County Board of Commissioners, subject to the County’s various collective bargaining agreements.

The Association is funded by a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan, and is included as a pension and other employee benefits trust fund in the County’s financial statements.

Subject to certain age and length of service requirements, eligible participants receive the same or comparable medical insurance coverage under the Association as was in effect at the time of their employment. At such time that participants become Medicare eligible, the benefits under the Association change to Medicare Supplemental coverage.

Employer contributions to fund the Association are currently on a pay-as-you-go basis with additional contributions intended to build the fund for purposes of paying future benefits. Although an actuarial valuation of the Association was completed during 2005, the County has determined that it will establish an annual employer contribution rate using the actuarial valuation as a reference, but not as a definitive requirement. VEBA members are not required to contribute to the Association.

Association membership consisted of the following at December 31, 2005:

Retirees and beneficiaries currently receiving benefits	572
Terminated employees entitled to but not yet receiving benefits	26
Vested active participants	1,370

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The VEBA statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period that the contributions are due.

Method Used to Value Investments. Association investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Administration – Administrative costs are financed through the Association's investment earnings.

3. INVESTMENTS

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the Association to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations.

The Association's investments are held by an independent investment management company. Following is a summary of the Association's investments as of December 31:

	<u>2005</u>	<u>2004</u>
Investments at fair value, as determined by quoted market prices:		
Equities	\$ 24,882,042	\$ 22,217,894
United States treasuries	335,621	584,206
United States treasury strips	418,041	392,506
United States agencies	610,570	1,308,264
Corporate securities	425,243	163,620
Bond mutual fund	6,469,724	5,601,460
Money market funds	<u>2,571,621</u>	<u>2,168,785</u>
Total investments	<u>\$ 35,712,862</u>	<u>\$ 32,436,735</u>

WASHTENAW COUNTY VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Notes To Financial Statements

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association's investment policy provides that all of its investments in fixed income securities be rated A1 or better by a nationally recognized statistical rating organization, except for United States treasury securities which are explicitly guaranteed by the U.S. government and not considered to have credit risk.

As of December 31, 2005, the Association's investments in securities of U.S. agencies are rated AAA by Standard & Poor's. The Association's investments in the bond mutual fund and corporate securities are rated by Standard & Poor's as follows:

AAA	\$	6,469,724
B+		161,550
CCC+		132,073
Not Rated		131,620
	\$	<u>6,894,967</u>

The Association's investments in money market funds are not rated.

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association's investment policy does not address custodial credit risk. Although uninsured and unregistered, the Association's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Association's name.

Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Association's investment in a single issuer. The Association's investment policy requires that no more than ten percent of its assets be invested in money market funds or short-term U.S. treasuries, no more than five percent in any one issuer and no more than twenty percent in any one industry.

WASHTENAW COUNTY VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Notes To Financial Statements

At December 31, 2005, the Association's investment portfolio was not exposed to concentration credit risk.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy provides that the weighted average maturity of its fixed income portfolio may not exceed 10 years.

As of December 31, 2005, maturities of the Association's debt securities were as follows:

	Fair Value	Investment Maturities (fair value by years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. treasuries	\$ 335,621	\$ -	\$ -	\$ 176,826	\$ 158,795
U.S. treasury strips	418,041	-	-	133,166	284,875
U.S. agencies	610,570	-	67,273	-	543,297
Corporate securities	425,243	-	257,705	-	167,538
	\$ 1,789,475	\$ -	\$ 324,978	\$ 309,992	\$ 1,154,505

The bond mutual fund has a weighted average maturity of 14.01 years as of December 31, 2005. Of the above balances, \$176,826 of the U.S. treasuries and all of the corporate securities are callable.

The Association's portfolio of U.S. agencies securities includes two inverse variable-rate notes; one with a par value of \$50,000 that matures November 2008 and the other with a par value of \$100,000 that matures November 2023. The fair value of these notes as of December 31, 2005 was \$8,174 and \$19,716, respectively. For the \$50,000 note, the amount of the monthly coupon is calculated at negative 2.592 times the Eleventh District Monthly Weighted Average Cost of Funds Index (San Francisco) plus 18.144%, with a cap of 18.144%; thus, as interest rates increase, the coupon rate paid declines. For the \$100,000 note, the amount of the monthly coupon is calculated at negative 2.167 times one-month LIBOR (London Interbank Offered Rate) plus 17.333%, with a cap of 17.333%; similarly, as interest rates increase, the coupon rate paid declines. For both notes, the frequency of the coupon's reset date is monthly.

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